



Adopted Fiscal Year 2004 Budget

Presented by
Gerald R. Miller
City Manager
&
Robert S. Torrez
CFO/Director of Financial Management

Historical City Seal

The seal of the City of Long Beach was designed in 1933 by Roland S. Gielow, a draftsman in the City's engineering department. Mr. Gielow created this seal as part of a contest and was awarded a \$150 prize for his design.

The theme of the seal is "Urbs Amicitiae" or the "Friendly City." The seal incorporates many design elements, both real and symbolic of the City of Long Beach.

At the center of focus is the "Queen of the Beaches," seated on her throne in the foreground, scepter in hand with the California "Golden Bear" at her feet. Below her lies the horn of plenty pouring forth an avalanche of fruit, agricultural and manufactured products, while perpetual sunshine lights the heavens where an airplane soars. Also depicted are the mountains and sea, a ship, the auditorium, typifying a convention city, the Rainbow pier and yachts offshore.

The lighthouse, breakwater and docks are symbolic of the harbor and the ship symbolizes commerce of the seven seas. Rail transportation is brought to the water's edge as pictured by the locomotive and factories and refineries and oil play a significant role in the pictorial structure.

To portray Long Beach's unrivaled oceanfront attractions, the artist paneled the whole with a seashell and to stress its cultural side a book of knowledge and lamp of wisdom are shown. The four stars at the top signify Long Beach as the fourth largest City in California at the time. This historic seal demonstrates all of the diverse and wonderful assets that the City of Long Beach maintains, and which benefit all who live, work and play in the City to this day.

This information is available in an alternate format by request to
the Budget Management Bureau (562)570-6425.

What We Believe

The City's Business is Service

We are committed to providing quality service to our diverse community in ways that are helpful, caring and responsive.

Working Together to Serve

We believe that the success of our organization depends on the teamwork, mutual trust, and honesty achieved through commitment to the following values:

Participation

by

citizens and City team members in setting and attaining the City's goals.

Communication

with

one another and with citizens.

Courtesy

in

all personal relations.

Integrity

in

everything we do.

Loyalty

to

our community, to this organization, and to each team member.

Innovation

in

meeting the present and future needs of the City.

Responsibility

as

a team for efficient and effective delivery of services.

Pride

in

our work, in our dedication to public service, and in being the best we can be.

Elected Officials City of Long Beach

Mayor

Beverly O'Neill

City Council

Bonnie Lowenthal, District 1
Dan Baker, District 2
Frank Colonna, Vice-Mayor, District 3
Dennis Carroll, District 4
Jackie Kell, District 5
Laura Richardson, District 6
Tonia Reyes Uranga, District 7
Rob Webb, District 8
Val Lerch, District 9

City Attorney

Robert E. Shannon

City Auditor

Gary L. Burroughs

City Prosecutor

Thomas M. Reeves

City Organizational Chart

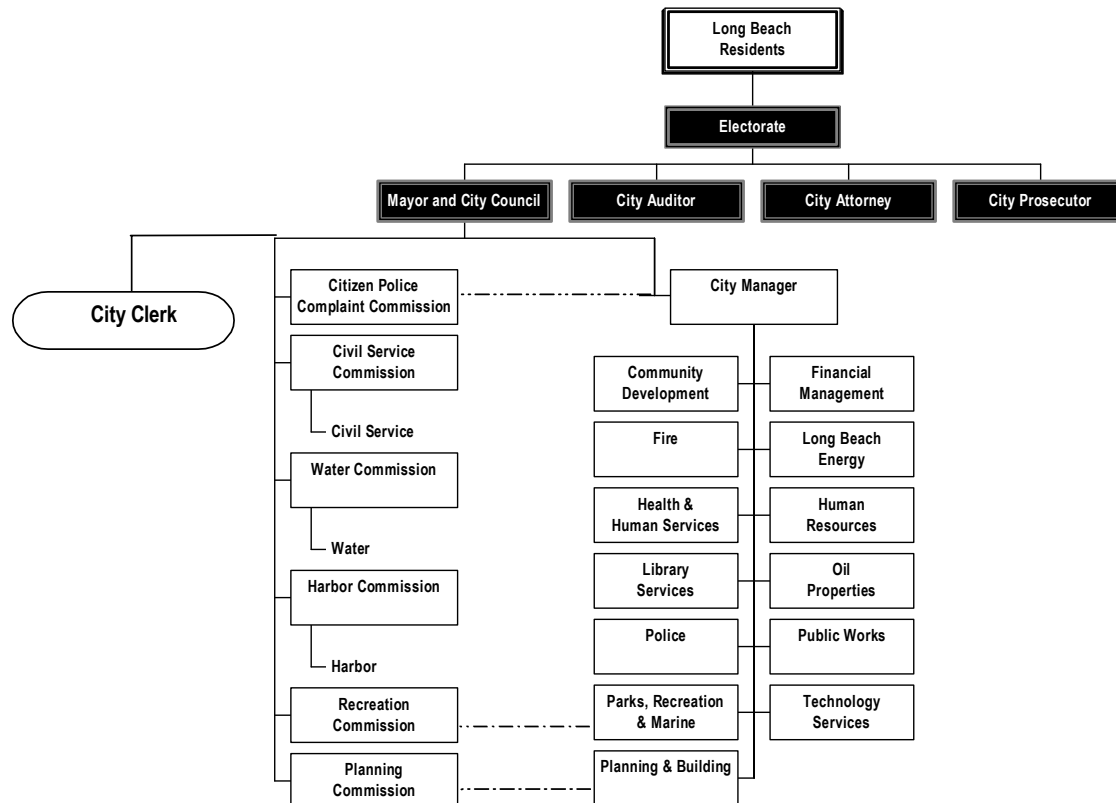


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City Manager's Budget Messages

The City of Long Beach utilizes two messages to provide a complete record of the City Manager's Proposed Budget and the final budget adopted by the Mayor and City Council.

The letter dated August 1, 2003 transmits the City Manager's message and proposed budget for Fiscal Year 2004 (FY 04) to the Mayor and City Council. In that message, the City Manager highlighted major changes in the condition of the General and other funds, the implementation of the Three-Year Financial Strategic Plan and the City's Performance Management Initiatives. The letter also provided information on the potential impact of the State of California's budget on the City's finances, recommended financial policies and the City Manager's vision for the City beyond 2004. The message included recommendations on cost reductions and on fee and rate changes, as well as anticipated major changes in revenue and critical investments in priority services areas for the new fiscal year.

The message dated February 29, 2004 highlights changes that were made to the City Manager's Proposed Budget by the Mayor and City Council during the budget adoption process, discusses financial policies adopted by the City Council and looks to the challenges ahead in FY 05 and beyond.

Together the two messages provide the background and environment within which the budget was developed and adopted.

Adopted Budget Transmittal Letter

Fiscal Year 2004

February 29, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Fiscal Year 2004 Adopted Budget

The Mayor and City Council adopted the budget for Fiscal Year 2004 (FY 04) on September 16, 2003, as provided under Section 1704 of the City Charter, after discussing the budget with the community at a citywide budget summit, public workshops and budget hearings, and at dozens of individual meetings with neighborhood associations, City board, commission and committee meetings.

The City is undoubtedly facing a difficult financial situation. Prior to adopting the FY 04 budget, the City's structural deficit in the General Fund was estimated to be approximately \$105 million over the next three years. The FY 04 gap between expenditures and revenues was filled through \$28 million in structural cost reductions and \$12.8 million in new, ongoing revenue. Combined, these \$40.8 million of structural solutions reduced the estimated structural deficit facing the City from \$105 million to \$64.2 million. In addition to the \$40.8 million mentioned above, \$17.5 million in one-time revenue (down from \$43 million in FY 03) and \$9.5 million in FY 03 carry-over savings were used to close the remaining FY 04 gap. Although the City has made significant progress to reverse the trend of deficit spending through the implementation of the Three-Year Financial Strategic Plan (Plan) and the FY 04 Adopted Budget, the structural deficit in the General Fund will carry forward into FY 05. Therefore, during FY 04, over the next two years and beyond, it is critical for the City to show fiscal restraint to implement deficit-cutting measures and develop service delivery strategies to address the remaining structural gap.

MAYOR AND CITY COUNCIL DECISIONS

To address the need to continually reduce costs and further the process of eliminating the structural gap, the Mayor, City Council and other elected officials adopted several changes to the proposed General Fund budget that contributed to additional expenditure reductions of \$561,582.

The full General Fund decrease is attributed to reductions in personnel and supplies by the Mayor and City Council, the City Prosecutor's reduction in support services, accelerated FY 05 Plan reductions to offset State takeaways during FY 03 and several technical corrections for personal services calculations. Several such adjustments were made in other non-General funds as well. For a list of notable changes, by fund, from the Proposed to Adopted Budget, please see **Attachment A**.

The Adopted FY 04 General Fund expenditure budget totals \$360.6 million. Revenue, including one-time sources and transfers, totals \$364.4 million. This leaves a budgeted FY 04 ending General Fund fund balance of \$3.8 million.

FINANCIAL POLICIES

During the development of the Plan, City staff and outside budget advisor Mr. Len Wood recommended the development of financial policies that would serve to guide future budgetary and financial management decisions. Such policies will provide transparent protocols to facilitate the City's return to and maintenance of fiscal sustainability.

Mr. Wood submitted a set of recommended financial policies to the Mayor and City Council in his report entitled, "City of Long Beach – Evaluation of Financial Condition" on July 1, 2003. The City Manager proposed a set of similar policies in his Budget Message to the Proposed FY 04 Budget, submitted to the Mayor and City Council on August 1, 2003. A refined set of these policies, reflecting feedback received from the community and City Councilmembers during the budget adoption process, was delivered to the Mayor and City Council on September 16, 2003, as an attachment to the City Manager's budget adoption council letter.

On September 23, 2003, the City Council unanimously adopted a set of ten Financial Policy Statements, as proposed by the City Manager and amended by the Budget Oversight Committee. Please see **Attachment B** for the City Council's Adopted Financial Policy Statements. In order to facilitate the implementation of these policies, the City Manager, in consultation with Mr. Wood, is developing a set of Financial Policy Procedures that will articulate detailed practices and methodologies for fulfilling the mandates of the policies.

FINANCIAL OUTLOOK – FY 05

Given the articulated priorities of the City Council and community, combined with the challenging Plan targets in FY 05, staff will continue to refine and expand many of the FY 05 structural deficit reduction options identified in the Plan. Therefore, the Budget Evaluation Process will be initiated once again, engaging the community, employees and City Manager-departments to identify viable cost reductions while maintaining focus on the core, priority programs that further the City's strategic objectives.

I am confident the City will be able to withstand the challenges we face and continue to provide quality services to the community.

Respectfully submitted,

GERALD R. MILLER
CITY MANAGER

GRM:BT:MK

Changes by Fund of FY 04 Proposed to FY 04 Adopted

General Fund, decrease of \$561,582

- Salary and non-personal services savings by the Mayor and City Council.
- City Prosecutor's reductions for information services, temporary agency staffing and contractual services.
- Accelerated FY 05 Plan Cuts to offset State Budget impacts.
- Added budget for debt service for the Skylinks Golf Course lease revenue bonds for renovation of the course.
- Technical corrections for personal services recalculations.

Health Fund, decrease of \$58,323

- Correct debt service budget for Health Facility Bonds.
- Technical correction for personal services recalculations.

General Services Fund, decrease of \$65, 884

- Increase of City Goods rent and decrease of one management position.
- Reduction of networking and printer costs due to decrease agreement with City Prosecutor Department.

Fleet Services Fund, increase of \$6,179

- Technical correction for personal services recalculations.

Insurance Fund, decrease of \$9,113

- Technical correction for personal services recalculations.

Tidelands Funds, increase of \$1,970

- Technical correction for personal services recalculations.

Gas Fund, decrease of \$5,344

- Technical correction for personal services recalculations.

Refuse/Recycling Fund, increase of \$5.344

- Technical correction for personal services recalculations.

SERRF JPA Fund, increase of \$57,239

- Correct debt service budget for SERRF Joint Powers Authority bonds.

Redevelopment Funds, increase of \$13,845,173

- Changes to account for various property acquisitions and projects in the Central, Downtown, North, and West Long Beach Industrial Redevelopment Project Areas.

1) Structurally Balanced Budget

The annual budgets for all City funds will be structurally balanced throughout the budget process. Recurring revenue will equal or exceed recurring expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan will be developed and implemented to bring the budget back into structural balance.

2) Report on How the Budget is Balanced

The City Manager will include in the narrative transmitting the Proposed Budget a concise discussion on how the proposed budget is balanced. If the structural balance changes between the Proposed and Adopted Budgets, the City Manager will clearly delineate the changes and the resulting structural balance in the Adopted Budget.

3) General Fund Reserves

The City shall maintain an Emergency Reserve equivalent to 10 percent of General Fund recurring expenditures and an Operating Reserve equivalent to 10 percent of General Fund recurring expenditures. If these reserves are used, a plan will be developed and implemented to replenish the funds used.

4) Use of One-Time Resources

Once the General Fund budget is brought into structural balance, one-time resources such as proceeds from asset sales, debt refinancing, one-time grants, revenue spikes, budget savings and similar nonrecurring revenue shall not be used for current or new ongoing operating expenses. Appropriate uses of one-time resources include establishing and rebuilding the Emergency Reserve and the Operating Reserve, early retirement of debt, capital expenditures and other nonrecurring expenditures.

5) Use of New Discretionary Revenue

Once the General Fund budget is brought into structural balance, a minimum of 10 percent of all new (ongoing) discretionary revenue will be devoted to capital projects including deferred maintenance and infrastructure needs.

6) Accounting and Financial Reporting

The City will conform to Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board (GASB). Reporting will include the following:

- A) Interim Financial Reports: staff will prepare monthly reports for the City Council that analyze and evaluate financial performance.
- B) Red Flag Exceptions: The City Manager shall advise the City Council of troubling and/or positive financial information including an assessment of the impact on the City budget and financial condition. Thresholds for this reporting include:
 - Whenever a major expenditure exception occurs that will impact a fund's expenditure budget by one percent or totals over \$500,000; or
 - Whenever a major revenue exception occurs that will impact a fund's revenue budget by one percent or totals over \$500,000.

7) User Fees and Charges

Every three years or less, staff will provide the City Council with reports that detail the full costs (operating, direct, indirect and capital) of providing services supported by user fees or charges. The City Council will define the level of City financial subsidy to be provided for various City services.

8) Grants

City staff will seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City.

9) Long-Term Financial Plan

Each year, staff shall develop a Long-Term Financial Plan that forecasts operating expenditures and revenue for the next three to five years and capital expenditures and revenue for the next seven years. The Long-Term Financial Plan will be updated prior to the start of the annual budget process. As part of the budget message, the City Manager will advise the City Council of potential long-term positive and adverse trends along with his or her analysis of the trends. The Long-Term Financial Plan will include, but not be limited to, an analysis of such factors as:

- A) Economic Growth Rates
- B) Retail Sales Activity
- C) State of California Revenue and Expenditure Impacts
- D) Census Data
- E) Residential Development Activity
- F) Industrial Activity
- G) Demographic Changes
- H) Legal and Regulatory Changes
- I) The costs that are deferred or postponed until the future
- J) The full ongoing impacts of grants
- K) The future costs of PERS
- L) The accumulation of benefit liabilities
- M) The costs of new programs that are not fully funded
- N) The difference between ongoing and one-time expenses and revenue
- O) The operating costs associated with capital improvement projects
- P) The impact of demographic and economic changes on services, revenue and program costs
- Q) Analyze financial trends
- R) Assess problems and opportunities facing Long Beach
- S) Identify alternative strategies needed to address the issues
- T) Develop long-term forecasts and revenue and expenditures using alternative economic, planning and policy assumptions

10) Debt Issuance

General Fund long-term debt payments shall not exceed 10 percent of operating expenditures. In addition, the City shall not issue long-term (over 1-year) General Fund debt to support operating costs. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

City Manager's Budget Message

Fiscal Year 2004

August 1, 2003

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach
California

SUBJECT: **Fiscal Year 2004 Proposed Budget**

I. Introduction

Transmitted herewith is the proposed City budget for Fiscal Year 2004 (FY 04), which begins on October 1, 2003. It is with some concern that I present this budget, my first as your City Manager. Months of intense effort by management and staff, working with the community, went into the development of the Three-Year Financial Strategic Plan (Plan). With endorsement of the Plan by the City Council in March, a new effort was begun to prepare the first component of that Plan, the FY 04 Proposed Budget. That process culminated in a proposed budget that focuses on cost reductions and reduces the General Fund's reliance on one-time resources, while keeping fee increases to a minimum.

Unfortunately, costs associated with workers' compensation, health benefits and general liability insurance have continued to increase, pushing the structural gap between ongoing General Fund expenditures and revenue beyond our preliminary estimates. As a result, we are now projecting a FY 04 structural deficit approaching \$67 million, expanding the three-year gap to an estimated \$105 million. These estimates are subject to change based upon external economic conditions, and will be monitored closely as assumptions change.

Furthermore, as the City's proposed budget was being readied to go to print, the State Legislature adopted its FY 04 budget on Tuesday, July 29. As expected, the State's budget includes revenue losses for local government. Statewide, the "hit" on local government (counties and cities) totals \$1.2 billion. Long Beach's loss is preliminarily estimated to be up to \$10 million. The bulk of the loss is a result of the elimination of the Vehicle License Fee (VLF) backfill during the 90-day period it will take the State to prepare and send out the billings with the higher VLF. City staff is reviewing the implementing legislation as it is being drafted and released by the State; it may be several weeks before the true impacts on Long Beach can be determined.

Although it was anticipated that the State budget would have an impact on the City's budget, the City's proposed budget does not incorporate the full range of these impacts, since it was not known which of several State budget proposals would be adopted and each proposal being considered by the Legislature included different impacts on the City. Therefore, rather than rush to revise the proposed budget now, and likely delay its publication, I feel it prudent to publish the proposed budget as prepared. In the weeks that follow, as more detailed information becomes available, staff's analysis of the impacts of the State budget on Long Beach will be completed and an update provided at the August 19, 2003 City Council budget workshop. It is my intent to also provide recommendations to the

Mayor and City Council on August 19 with regard to possible revisions to the proposed City budget that deal with the losses of revenue due to the State. One strategy, which has been previously discussed, is to accelerate options included in the Plan for FY 05 or FY 06. This strategy is not desirable, but I am afraid we may have no choice.

II. Background

The development of the FY 04 Proposed Budget was a collaborative achievement, building on the efforts undertaken to create the Plan. With the support of the Mayor and City Council, staff initiated an unprecedented public outreach program designed to effectively communicate the FY 04 Proposed Budget and to solicit community input for City Council consideration. On July 12, 2003 a citywide Budget Summit was held to provide the community a preview of the proposed budget as well as generate valuable input. This budget interprets concepts put forth at this event and in the City Council-endorsed Plan, including protecting public safety operations, in addition to other core service areas communicated in last fall's "Voice Your Choice" community survey.

This FY 04 Proposed Budget represents a critical turning point in how the City manages its finances. Through a deliberative process made available to every employee and community member, the Plan identified strategic spending reductions across the organization. The Plan also provides an understandable, flexible framework that allows our City government and the community to work together in effectively planning for our ongoing financial stability, despite the economic and budget challenges that we may face.

This letter focuses on the General Fund due to its importance in providing core municipal services. All funds were reviewed, however, as part of the Budget Evaluation Process. Implementation of Year One (FY 04) of the Plan, as discussed in this letter, results in a \$38.2 million reduction of the estimated \$67 million FY 04 structural gap. Permanent spending cuts in the General Fund and related funds total \$27.4 million, return on assets and marketing will generate \$6 million, while revenue from new or increased fees total \$4.8 million (see **Attachment A** for more detail). One-time revenue and FY 03 carryover savings were used to fill the remaining \$28.8 million budget gap in FY 04, which allows the City to maintain a rational approach to structural deficit reduction. The Proposed FY 04 General Fund Budget is balanced; nonetheless, we must be mindful that considerable spending and service reductions are included.

Moreover, we must not lose the focus put on solving the City's remaining structural deficit, the balance of which is estimated at approximately \$67 million over the next two years. Further reductions in spending and services will be required to attain a sustainable fiscal balance, with many of the necessary cutbacks in FY 05 and FY 06 being much less palatable than the most difficult of reductions recommended in this budget.

The immediate challenges facing the City are the ongoing economic slump that began before September 2001, the loss in revenue resulting from the voter-approved reduction to the City's Utility Users Tax and the enormous State budget deficit. While the economy appears to be slowly improving, the State has historically shown a penchant to turn on local government, taking away critical revenue and forcing the financial burden of State programs onto local government. FY 04, as we now know, is no exception.

At the beginning of FY 03, steps were taken that enabled the City to immediately begin to address its budget challenges while at the same time maintain core City services. The hiring freeze implemented in September 2002 is one such initiative that has created an estimated 350 vacant positions in the General and related funds, with approximately 65 of those being sworn Police, Fire, and Emergency Dispatcher positions. This "inventory" of vacant positions has generated significant savings and will also help minimize the impact of reducing over 170 positions in the General Fund and related funds in FY 04. Spending restrictions are also in place for all departments which report directly to the City Manager, with a continued emphasis on purchasing only critical supplies and services, and doing more with less. In conjunction with some department reorganizations, these actions are estimated to generate \$12.8 million in funding from FY 03 that was contemplated in the Plan to help balance the FY 04 budget. Unfortunately, as discussed earlier, the impacts of the State budget will eliminate much of that carryover, unless other changes are implemented.

III. Major Changes to the Structural Deficit

The Plan initially estimated the FY 04 gap to be \$52 million. Since the Plan's adoption, the estimated FY 04 structural deficit has grown to approximately \$67 million. The largest components of the estimated growth in the deficit were reported to the City Council in the April 2003 Monthly Budget Performance Report, and consist of but are not limited to, the following:

Workers' Compensation Costs

For both the private and public sectors, costs associated with workers' compensation insurance have skyrocketed over the past few years. Nowhere in the nation is it worse than in California, where there has been a proliferation of State laws favoring workers' rights and restricting employers' ability to control costs. The City's costs have also risen due to an increase in the number of workers' compensation claims and higher than anticipated medical treatment costs. Charges to the General Fund for workers' compensation increased \$7.1 million in FY 04; charges to all City departments increased \$14 million. The table below shows the significant increase, for all City departments, in the number of claims filed, lost work hours, and claims expense, compared to the growth in the size of the City workforce.

Citywide Workers' Compensation Trends - All Departments/Funds					
Fiscal Year	Average Number of Employees	Lost Work Hours	FTE* Value of Lost Work Hours	Claims Filed	Claims Expense***
1998**	5,728	125,025	60	852	\$ 7,582,000
1999**	6,049	152,951	73	904	\$ 8,327,000
2000**	5,817	185,893	89	1,051	\$ 9,996,000
2001**	5,936	204,356	98	969	\$ 11,727,000
2002**	6,163	219,082	105	1,036	\$ 13,862,000
Growth 1998 to 2002	7.59%	75.23%	75.00%	21.60%	82.83%
Estimated 2003					\$ 15,700,000
Estimated Growth 1999 to 2003					88.54%
* FTE - Full-Time Equivalent equates to 2,088 work hours or one full-time employee position					
** Cash paid per Comprehensive Annual Financial Reports (CAFR): 1998 - 2002					
***Claims expense is only one component of total workers' compensation costs					

City Manager's Budget Message
Fiscal Year 2004

In endorsing the Plan, the City Council authorized the City Manager to conduct a comprehensive review of the City's Workers' Compensation, Risk Management and Occupational Health programs. The study is underway and will utilize outside industry experts to identify opportunities to improve City processes and thereby lower costs.

General Liability Insurance Costs

The City is also experiencing significant increases in its general liability insurance costs, and has limited options with regard to controlling costs including: increasing insurance deductibles; lowering the amount of insurance coverage; or, simply not buying insurance. Insurance companies have increased insurance rates to their customers, particularly over the past three years, due to a worldwide increase in the number of claims and the high payouts related to catastrophic losses. The General Fund's share of the increased insurance costs in FY 04 is \$1.6 million, and for all City departments a total increase of \$3 million. In the event of a large disaster, however, the General Fund's \$35.4 million Emergency Reserve remains intact.

Health and Other Benefit Costs

Anticipated health and other benefit cost increases for the General Fund were factored into the Plan at approximately \$2 million. However, based on more recent estimates, General Fund costs are anticipated to grow another \$2.8 million to an estimated total increase of \$4.8 million in FY 04, and for all City departments a total increase of \$7.3 million, based on preliminary estimates furnished by the City's health care providers. Healthcare expenses across the nation have been increasing substantially for several years, primarily due the growth in the number of new medical procedures, the cost of medical care and prescription drugs, and reduced federal and State funding. For the City, the following chart shows the average monthly and annual health care premiums paid by the City on behalf of each employee, along with the annual percentage increase:

Average Health Premiums Per Employee	Actual FY 02	Actual FY 03	Projected FY 04
Monthly	\$ 470	\$ 524	\$ 653
Annually	\$ 5,640	\$ 6,288	\$ 7,836
% Increase from Prior Year	-	11.49%	24.62%

IV. FY 04 Proposed General Fund Budget

The FY 04 Proposed Budget was developed by using the Three-Year Plan as a guide to set spending priorities and reduce the structural deficit through a balanced approach of expenditure reductions in non-core areas coupled with modest revenue increases. The General Fund's FY 03 expenditure budget, as adopted by the City Council, was \$368.2 million. However, since adoption of the FY 03 Budget, several factors, in addition to those mentioned above regarding workers' compensation, general liability insurance and employee benefits have increased the City's costs and are highlighted below. Most of these increases were anticipated in the Plan, although some costs are projected to be higher than anticipated.

City Manager's Budget Message
Fiscal Year 2004

The Plan also contemplated an increase in several major revenues, while others such as the Utility Users Tax were anticipated to decrease. The discussion that follows highlights some of the more significant cost and revenue changes impacting the FY 04 Proposed Budget, including base budget and Plan cuts and fee increases. With a proposed FY 04 expenditure appropriation of \$361.1 million, the budget is balanced and provides for an ending fund balance of \$1.5 million to carryover to FY 05. In addition, the \$35.4 million Emergency Reserve remains intact.

FY 04 has a beginning fund balance of \$12.8 million, which is the amount expected to be carried over from FY 03 savings and additional revenue. In addition to the \$12.8 million one-time carryover and \$38.2 million in structural deficit reductions, the FY 04 Proposed Budget utilizes approximately \$17.5 million in one-time transfers to maintain a rational approach toward deficit reduction. Due to the success of the hiring freeze and purchasing curtailments in the current year, many of these transfers were deferred from FY 03. I am very pleased to report that this represents a reduction from the one-time funds used to balance the FY 03 Budget, and provides for a \$1.5 million ending fund balance to help fill the FY 05 gap. Given the skyrocketing growth in the cost of government, this reduced reliance on one-time revenues demonstrates significant progress toward our three-year goal of fiscal sustainability.

Base Budget Changes

The expenditure budget is comprised of tens of thousands of line item budgets across all departments Citywide. The following briefly describes the more significant changes to the base budget, which includes increases due to previously negotiated or contractually mandated costs. These changes increased the base General Fund budget prior to implementing the Three-Year Plan reductions.

Cost increases incorporated in the budget are related to such items as the 3.0 percent negotiated miscellaneous employee pay raise, employee health benefits, insurance costs, public safety equipment and debt service costs, grants and contracts payments. These increases are partially offset by various base budget reductions, such as the removal of FY 03 one-time expenses, indirect cost allocation adjustments, expiring grants, and decreased pension bond debt service payments. After various changes to the base budget, net increases approximate \$13 million in the General Fund. Thus, if cost reductions had not been implemented, the General Fund budget would have totaled approximately \$380 million.

Again, these are only examples of some of the numerous expenditure changes included in the Proposed FY 04 General Fund budget. Please refer to **Attachment B** and individual department sections of the budget document for a list of Uncontrollable and Negotiated Cost Increases.

Structural Changes

Once the base budget was determined as a starting point, staff in all departments implemented changes to the City's General Fund and related funds expenditure budgets that reduced the structural budget gap.

Implementation of Year One of the Three-Year Plan results in a proposed \$27.4 million reduction in the FY 04 operating budgets for City Manager directed departments, with \$19.7 million of those cuts being directly in the General Fund and the balance of \$7.7 million in the related funds (i.e., Gas Fund, Towing Fund, Employee Benefits Fund, Insurance, Civic Center Fund, Fleet Fund and General Services Fund) which will directly and indirectly benefit the General Fund. In addition to the cuts recommended in the Plan, the elected and non-City Manager departments made reductions, in aggregate, of \$1.1 million.

Details of the \$27.4 million of General Fund and related funds Plan-recommended reductions incorporated in the FY 04 proposed budget are included in **Attachment A** and in the respective department chapters of the budget. Some examples of budget reductions include:

- Over \$7 million in cuts in general administration and management functions including elimination of 67 positions, over 20 of which are management positions
- \$3.4 million in anticipated savings to be realized through negotiations with employee unions
- \$5 million in cost-saving operational and organizational changes
- \$4 million in reduced materials and supplies such as eliminating over 200 vehicles from the City fleet and extending computer replacement cycles
- \$1 million in savings from contracting-in, contracting-out and/or optimizing select City services such as street median landscape maintenance, custodial services and reprographics
- \$680,000 from reductions in non-critical maintenance and infrastructure costs
- \$3.4 million from reductions to Police and Fire non-emergency support staff and reductions in Police overtime through redeployment to patrol
- Rolling closures of branch libraries, which changes days of operation from five to four days a week at most libraries, at a savings of \$417,000
- Discontinued Sunday hours at the Main and Bay Shore branch libraries, and reduced evening hours at the Los Altos and El Dorado branch libraries (to the same level as other branches), at a savings of \$216,000
- Elimination of funding for the International City Theater summer youth performing arts program, Pools for Hope swimming program, Folklorico dance classes, Long Beach Unified School District summer recreation playground programs, OlympiKid and Senior Olympics programs, at a savings of \$284,000
- Reduced spending on arts and cultural programs at a savings of \$529,000 to the General Fund and savings of \$350,000 to the Special Advertising and Promotions Fund
- Municipal band concert schedule shortened to six weeks, reducing costs by \$96,000

Changes to the General Fund's expenditure budget also include proposed enhancements in critical service areas, most of which are revenue offset. A few programs have been augmented by shifting funding to address critical needs as voiced by the community. General Fund enhancements recommended for FY 04 total \$1.5 million, and are offset by revenue and/or expenditure reductions in most cases. The following provides examples of some of the more significant enhancements. Refer to **Attachment C** for a comprehensive list of enhancements for the General Fund and other funds.

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- In response to the high priority expressed by the community in the “Voice Your Choice” survey, a \$500,000 annual alley repair and upgrade program is proposed to begin in FY 04. This initial program will target the most pressing alley repairs, and for FY 04, will be funded with Gasoline Tax and CDBG funds. Note that staff has begun identifying the City’s infrastructure maintenance needs, and will prioritize those needs during FY 04.
- A \$200,000 increase in funding is recommended to bolster the City’s graffiti abatement program. Staff is working to identify alternative funding sources to offset the cost of this important program.
- Increases are recommended to support the Community Development Department’s Project Development Bureau (\$200,000 additional budget, which is fully revenue offset) and the Planning and Building Department’s Construction Regulation function (\$217,666 additional budget covered by existing, dedicated fees). Both departments are experiencing heavy workloads due to increased development activity, and need resources to adequately respond.
- Support for City parades, including staffing and equipment, costs approximately \$138,000 per year. Prior year budgets for these costs were only \$38,000. Departments had to support the difference from savings realized in other parts of their operations. Given the extent of the cuts recommended in the FY 04 Proposed Budget, the ability to absorb these costs will no longer be possible. Therefore, a \$100,000 increase is proposed to accurately reflect the actual costs of City support for the Daisy Lane, Martin Luther King Jr. and Veterans’ Day Parades. It is recommended that funding from private sponsorship of these events be sought in order to offset the City’s costs.
- Creation of a Marketing and Sponsorship Program will provide the opportunity to promote the City while generating revenue to support core City services. The Proposed FY 04 Budget includes \$121,000 in costs and \$1,000,000 in revenue associated with City marketing and sponsorship activities.

Estimated Revenues

The General Fund depends on over 200 different revenue sources to fund operations. **Attachment D** lists the 40 largest General Fund revenue sources, which comprise over 90 percent of General Fund revenues. FY 04 projected increases include Property Tax revenue of \$2.6 million and Sales Tax revenue growth of \$1.9 million. Also, projected increases in Motor Vehicle License Fees of \$799,000, Pipeline Franchise Fees of \$862,000 and Transient Occupancy Tax of \$598,000 are included. These increases, however, are almost completely offset by the voter-approved reduction to the Utility Users Tax in FY 04.

The FY 04 Proposed Budget anticipates an increase in the return on City assets and revenue from marketing efforts in the General Fund and related funds. The following are a few examples of some of the new revenue that approximate \$6 million in FY 04 (see **Attachment A** for a more detailed listing):

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- Increased return from the City's refuse-to-energy plant (\$2.5 million)
- Advertising on City vehicles, and other marketing and City sponsorship efforts (\$1 million)
- Apply Pipeline Permit to the Water Utility (\$2.5 million)
- Loan repayment from Community Hospital (\$140,000)
- Additional property tax increment pass-throughs (\$320,000)

New fee-related revenues proposed in the budget would generate approximately \$225,000 per year and include:

- Preferential parking permits (\$20,000)
- After-hours towing release fee (\$50,000)
- Implementation of a towing collections contract to recover unpaid fees (\$100,000)
- Hazardous materials education program fee (\$55,000)

Modest increases in existing General Fund fees totaling \$2.8 million were also necessary to avoid harmful cuts to core services, including increases to charges to cover the cost of the fire plan check function, parking citations, returned check fee, and recreation fee increases. Proposed changes to fees are consistent with fees charged in comparable agencies. **Attachment E** contains a complete listing of proposed fee increases.

V. Other Funds

Special Advertising and Promotion Fund

This fund supports the Convention & Visitors Bureau (CVB), Junior Concert Band, Public Corporation for the Arts (PCA) and other City promotions through a portion of the revenue generated by the City's Transient Occupancy Tax (TOT). The Fund also partially supports the City's Special Events Office that is responsible for coordinating the City's involvement in the Long Beach Grand Prix, various parades, movie productions and other events. The City currently assesses a 12.0 percent TOT on visitors staying at City hotels. Half (6.0 percent) accrues to the General Fund, and the other half (6.0 percent) is split between the Redevelopment Agency Fund (RDA) and the Special Advertising & Promotion Fund (Promotion Fund). Of the 6.0 percent TOT rate that does not go to the General Fund, the RDA receives the tax collected from the hotels located in the Downtown Redevelopment area, while the Promotion Fund receives the tax collected from the rest of the hotels in the City. The RDA TOT is pledged first to repayment of the City's Aquarium Bonds, then to repay the Harbor Fund for a loan provided for the Convention Center expansion. Beyond that, the funds are available to augment Promotion Fund programs.

For the past several years, the City has relied on available RDA TOT funds to maintain or enhance Promotion Fund programs. Beginning in the latter part of FY 02, however, the RDA TOT funds have been needed to support the Aquarium Bond payments. Due to the lack of available RDA TOT, staff now projects a budget deficit in the Promotion Fund with current spending levels. To mitigate the unavailability of TOT revenue, the City must reduce program expenses. For FY 04 it is proposed that costs be reduced by \$350,000 (in addition to the General Fund reduction of \$300,000) for support for the Public Corporation for the Arts (PCA) contract, \$200,000 in marketing, promotions and tourism related funds and \$175,000 for capital projects at the Long Beach Convention Center. However, funding

for the Convention and Visitor's Bureau (CVB) is recommended to remain intact at \$3.7 million.

The negative affects of the downturn in the economy and impacts of September 11 tragedies on area tourism and conventions are anticipated to ease in FY 04. Coupled with a full year of operations of Carnival Cruises and the opening of the Pike, some TOT growth is expected in FY 04. Even with this expected revenue growth, it is anticipated that the Promotion Fund will continue to have funding challenges.

Gas Fund

As required by the City Charter, Long Beach Energy (LBE) has performed a review of its rates and fees for natural gas services in comparison with other surrounding gas utilities in Southern California. This comparison indicates that LBE's rates are well below those charged for similar services by the Southern California Gas Company, and further below those of the other two gas utilities, San Diego Gas & Electric and Southwest Gas.

In addition, LBE will be incurring some significant costs in FY 04 directly associated with programs that greatly benefit its customers. The first is \$1 million in fixed annual costs that LBE now pays to obtain long-term lower gas commodity costs and critical price protection for LBE's customers. The second cost is an annual increase of \$700,000 paid to Southern California Gas Company for intrastate natural gas pipeline transmission service and for additional storage services. Lastly, it is recommended that a comprehensive review of the natural gas pipeline system be performed that will identify maintenance needs and a recommended strategy to address these needs.

As such, a rate adjustment of \$2.2 million is recommended as follows: \$1.5 million increase in residential rates and \$700,000 increase in commercial/industrial rates. For the "average" residential customer, this would equate to an increase of 94 cents per month. This rate increase would maintain rates for LBE's customers comparable with those of the surrounding gas utilities in Southern California.

Tidelands Funds

The Tidelands Funds support the operating, maintenance and development of the Tidelands Trust area, including the beaches and waterways, marinas, Convention Center, Pike at Rainbow Harbor area and the Aquarium of the Pacific, in addition to the Queen Mary and Hyatt Hotel leases. Resources to support services provided in the Tidelands area are dependent on continued support from the Tidelands Oil Revenue Fund (TORF) and the Harbor Fund. State law provides for the transfer of certain TORF profits to the Tidelands Funds, and given the continued high price of oil, has provided substantial funding for Tidelands Funds the past few years. This support will continue into FY 04. To enact the Harbor Fund transfer, the City Council will be asked to request a transfer of 10.0 percent of the Port's net income to the Tidelands Fund, as allowed by City Charter. The transfer is included in the Tidelands Funds' and the Harbor Fund's proposed budgets.

The Board of Harbor Commissioners must approve the transfer before it can be made. Limited capital project funding for the Tidelands area has been available the past few years, and this continues to be the case for FY 04; however, a modest \$100,000 continued commitment to the seawall rehabilitation program is included in the FY 04 Proposed Budget

and will be funded by the TORF transfer. In addition, a one-time budget increase of \$150,000 is proposed to support anticipated costs associated with the U.S. Olympic Swim Trials. Funding to offset this increase to cover additional Police, Fire and Public Works staffing costs has yet to be identified.

Workforce Development Grants

The City's Workforce Development Bureau provides essential job-skill development and employment attainment programs for Long Beach's residents. During FY 03, the State and Federal governments made drastic reductions in grant funding to local workforce development programs. As a result, severe reductions in the Workforce Development Bureau's staff and programs were made.

The lack of grant funding remains a problem in FY 04, which is reflected in the Bureau's staff, reduced by 66.25 FTEs (from 118 in FY 03 to 51.75 in FY 04), and its budget, reduced by 75.0 percent from FY 02 levels (from \$19.4 million in FY 02 and \$5.5 million in FY 03, and now down to \$4.7 million in FY 04). The City will continue to secure any funds as they become available, to restore in full or in part, the critical job training services our community needs.

VI. Impacts from the State Budget Deficit

The \$38 billion budget deficit facing the State of California is unprecedented. The Legislature adopted the State's FY 04 budget on July 29, 2003. At the time of this writing the Governor had yet to sign the budget. Several "trailer" budget bills, required to implement the State budget and containing impacts to cities, were adopted by the Assembly and will have to be brought back to the Senate for consideration once they reconvene in mid-August. As indicated earlier in this letter, given that sufficient information is not available, the impact of the budget on the City is not incorporated in the FY 04 Proposed Budget; however, the impacts will be addressed as a proposed amendment to this proposal in the next several weeks.

It is not possible to accurately project State impacts until all budget bills have been drafted and adopted. Losses to the City's General Fund could effectively wipe out most of the \$12.8 million carryover departments have sacrificed to generate during the current year requiring further reductions to balance next year's budget. City staff gave much thought in crafting the Three-Year Plan to be aligned with community priorities, but financial actions by the State could force the City to make cuts to core services.

Losses of this magnitude could result in the need to accelerate Plan reductions currently not scheduled until FY 05 and FY 06. It may be extremely difficult to protect core services such as front-line police, fire protection, and infrastructure programs as a result. Furthermore, the State Legislature's actions for FY 04 have ultimately postponed many of the difficult decisions and measures required to resolve the State's budget crisis into FY 05, thus making even further cuts to local governments in FY 05 likely.

VII. Three-Year Financial Strategic Plan

On March 25, 2003, the City Council formally endorsed the Three-Year Plan, which was the culmination of six months of intense effort to solve the then projected \$90 million structural deficit (currently estimated at \$105 million). It incorporates community input, City Council priorities and department needs into a strategy that addresses the deficit while minimizing, to the extent possible, negative impacts on core municipal services. In prescribing spending priorities each fiscal year, the upcoming annual budgets should be formed by concepts laid out in the Plan. Then, to best reflect continuing changes in community needs, legal requirements and the fiscal environment, the Plan must be continuously updated in order to successfully address emerging community issues and financial concerns, and to capitalize on financial opportunities. A guiding principle followed during the development of the FY 04 Proposed Budget was that departments had to adhere to goals and concepts endorsed in the Plan.

Each year the Plan will be evaluated, revised as needed, and translated into a budget for the upcoming fiscal year. To continue to be relevant and effective, the Plan must remain a working model and must be updated to best anticipate and be responsive to projected changes. Following the adoption of the FY 04 Budget, staff will initiate the process for updating the Three-Year Plan to incorporate changes associated with growth in the structural deficit and the State budget impacts. The Budget Evaluation Process used to update the Plan should remain open to public input and debate, with the update being finalized upon receiving endorsement by the Mayor and City Council.

Over the course of the next two years we will have to work together to identify further savings to close the remaining structural gap. It is anticipated that results of optimization efforts, such as the special studies currently in process, will contribute to closing the gap. Options to generate additional revenues should also be explored to avoid reductions to core services.

VIII. Financial Policies

The short-and long-term strategic vision and priorities of the community require prudent financial management on the part of both the City Council and City management. As we work together to address the current fiscal crisis, the policy-setting and decision-making mechanisms required to achieve our collective goals must be institutionalized to maintain our course toward a healthy future.

Of utmost importance in the near-term is establishing a clear and comprehensive set of financial policies to serve the framework within which the City's financial planning and decisions are made. Such policies should provide a transparent standard of performance endorsed by the City Council and City management, against which they will be held accountable, and that the community can understand. The policies should address both current activities and long-range planning, and should be reviewed annually to assure the highest standards of fiscal management. As Len Wood, the City's outside financial advisor recommended in his July 2003 presentation to the Budget Oversight Committee, effective financial policies *"...should be consistent with broad government goals and should be the outcome of sound analysis... and should establish standards which are used by the City Council to oversee the budget and financial activities of the City."*

It is recommended that fiscal policies be adopted that first address the following areas deemed critical to the future fiscal stability of the City:

Structurally Balanced Budget – Adopting a balanced budget where ongoing revenues equal or exceed ongoing expenses will work to ensure that the City does not spend beyond its means. The policy should provide a clear definition as to how budgetary balance is to be achieved on an annual and on-going basis.

Use of New Revenues – Many of the City's revenues are economically sensitive, and increases experienced in one year may not be sustained in other years. Once the budget is brought into balance, consideration should be given to setting aside a portion of all future revenue growth for critical capital needs.

Use of One-Time Revenues – Occasionally, the City generates unanticipated one-time revenues from a variety of sources. Examples include proceeds from asset sales, debt refinancing, one-time grants, and budget savings carried-over from year-to-year. Reliance on one-time revenues to balance ongoing annual operating expenses is deemed to be a major contributing factor to the City's structural budget deficit. As this income is non-recurring, it is critical to have a financial policy in place to limit use of these monies to one-time expenses. Appropriate expenses for one-time revenue include items such as establishing/rebuilding emergency and operating reserves, early retirement of debt or for capital purchases.

Operating Reserve Funds – The City Council has adopted an Emergency Reserve Fund policy whereby an amount approximating 10.0 percent of the annual General Fund budget is set-aside. It is recommended that, in addition to the Emergency Reserve, a prudent Operating Reserve be established. The Operating Reserve would be used as a buffer against temporary losses of funding or uncontrollable spikes in expenses. Such a reserve could be utilized in dealing with a short-term financial crisis in order to avoid having drastic reductions in services and programs, or raising fees. It is recommended that a policy be developed that, over time, a 10.0 percent Operating Reserve be established.

Long-Term Financial Planning – Similar to the Three-Year Financial Strategic Plan, the City should continue to employ financial forecasting and planning tools to be used in developing the annual budgets. Though a three-year forecast is most relevant to developing annual budgets, longer-range forecasts and plans should be developed to address issues in a more strategic manner, providing opportunities to follow the most reasoned approaches to maintaining fiscal stability and plan for long-term community needs.

Infrastructure and Facilities Maintenance Planning – Specific long-range maintenance and replacement plans must be developed, including identifying ongoing funding sources, that address critical maintenance needs of the City's infrastructure (e.g. streets, curbs/gutters/sidewalks, storm drains, etc.) and facilities (e.g. fire and police stations, libraries and parks).

Fees and Charges – The City provides a multitude of services and programs, and for many of these, charges a fee to recover some or all of the associated costs. It is recommended that a policy be developed regarding fees that addresses the methodology used to determine the appropriate amount of specific fees, the extent to which costs should be

recovered, the extent and rationale for subsidies, and the frequency with which fees should be evaluated.

Debt Issuance and Management – Issuing debt commits the City for many years to make debt payments, and limits the City's flexibility to respond to changing service priorities. Implementation of a clear policy on the appropriate use of debt should include, at a minimum, blocking use of such one-time resources (debt) to support ongoing programs. It should also serve to dissuade issuance of debt when dedicated, recurring revenues have not been identified for the repayment of the debt.

Debt Level and Capacity – Debt level policies deal with the maximum amount of debt and debt service that should be outstanding at any one time. Policies should be developed for: all debt where repayment is directly supported by the General Fund; debt that is backed by a pledge against General Fund revenues or assets; enterprise fund debt; special assessment debt where the City is part of the assessment district; property tax increment financings; and, lease financing.

IX. Performance Management Initiatives

Meeting the needs and expectations of the public through the City's diverse programs and services is one of the primary goals of the City. Such value can only be created in an environment that encourages and rewards excellence, creativity, continuous improvement, accountability, customer service and greater efficiency and effectiveness in our daily charge. As a means to this end, the City has developed a number of Performance Management Initiatives (PMI) to assist in its on-going effort to become a high performance organization that better serves the community. There are several components of PMI, details of which can be found in the Performance Management Initiatives section of the budget document.

For the first time in the City's history, Department Business Plans are reflected in the budget document, which is further evidence of the City's progression towards increasing accountability within City operations. By including the Business Plans in the budget, the City is taking steps necessary to align its management and fiscal reporting practices with the City's 2010 Strategic Plan, along with the services and programs provided by City departments, rather than placing the bulk of the focus on its organizational structure (departments and bureaus). During FY 04, a further review and prioritization of services will be conducted, with financial information ultimately being linked to the services. Improved performance measures will also be developed to provide for better tracking of service delivery outcomes (effectiveness) and outputs (efficiency). Decision-makers and the community can use this performance information to hold departments accountable, and to ensure that scarce resources are appropriately allocated to priority areas.

Working with the City Auditor's Office to convert the traditional annual resource allocation plan into a service/program-based budget document, with specified performance objectives and measures, is a significant goal over the next few years. The FY 04 Proposed Budget reflects some of the improvements from this effort in the department sections of this document.

X. Beyond 2004 – Long Range Planning

The City, through the thoughtful development of the Three-Year Financial Strategic Plan, created a rational roadmap guiding the City on a path toward correcting the imbalance between expenditures and revenues. Given time, the City will undoubtedly emerge from this fiscal crisis a stronger organization. However, there will be future challenges and opportunities that we must be prepared to meet.

For example, funding needed to adequately maintain critical infrastructure systems, public facilities and technology systems has been deferred over the past several years to support and enhance services and programs. Deferring these maintenance needs puts our quality of life at risk for current and future generations, and is no longer a viable option. To this end, staff is developing a comprehensive inventory of maintenance requirements which, in addition to the Fire facilities' and alley improvement needs pointed out in studies conducted last year, will be the basis for scheduling the maintenance of all City assets. In addition, I am recommending a comprehensive review of the natural gas pipeline system, which will identify maintenance needs and a recommended strategy to address these needs. Furthermore, the City's core computer systems are in some cases over 25 years old, and it is becoming more and more difficult to maintain these systems, let alone adapting them to meet future operating requirements. An Information Systems Master Plan is being developed in order to provide a course by which the City's critical technology systems, including those utilized for permitting, billing/collections, business licensing, inventories, etc., can be updated. Given our current fiscal environment, developing funding strategies to address our current and future infrastructure and maintenance needs will be difficult, but is a necessity. Developing such a strategy is an important component of the Three-Year Financial Strategic Plan.

The past twelve months have been an incredible time for the City. We have been transformed into an organization with more focus and greater resolve to plan our future in a proactive manner, rather than in a reactive fashion. Even with the unknowns in our future, like the economy and State budget, we need to continue to focus ahead and develop strategies to plan for future needs of the City, while maintaining core services the community clearly identifies as important.

Economic development and strategic marketing of assets are also important areas of investment. With a focus on economic development we could strategically strengthen our own local economy through job creation and service retention. In the near-term, an Economic Development Strategic Plan will be presented to the Mayor and Council for their endorsement. This plan will establish economic development strategies throughout the city and identify assets, opportunities and actions for the City and private enterprise to undertake. We also need to ensure that dollars invested in the promotion and marketing of the city are used wisely, and that they leverage and enhance private sector investments in the community.

XI. Conclusion

To a large extent, the negative impacts of the current economy could not have been avoided, and the threat of current and future State budget decisions still confronts us. Our financial environment requires that City operations be continually evaluated and steps taken

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to be as efficient, effective and responsive as possible. Long-term financial planning must become standard practice so that we may identify, early on, potential problems and begin to take corrective actions before the problems become too severe. In addition, such planning will provide us the tools to shape our future with a clear, specific vision in mind, with which we can make our goals a reality.

Greater transparency of City government decision-making and operations are key to our goal to create a high performing organization that is trusted by the community. The collaborative processes used in developing the Plan are being utilized during the FY 04 budget adoption process, and clearly reflect a new way of doing business. In addition to encouraging open dialogue on City issues with the public, and to ensure that the City does not find itself in similar financial straights in the future, the City must next develop sound financial policies and be held accountable to them.

As your new City Manager, I have established four clear, achievable goals:

- Provide for a clean and safe city;
- Make the City fiscally stronger;
- Engender more trust with the community, the City Council and our employees through open communication and consistent follow-through; and
- Create a clearer linkage between new development and neighborhood needs.

Toward these ends, I believe the City is now on the right path, with substantial steps already having been taken toward solving our financial dilemma and enhancing community participation. However, much work still remains. Reforming our communication and financial reporting processes will not be easy, but are worthwhile and needed to build community trust of its government.

The City's management team is committed to continue working closely with the community, the Mayor and City Council, and City employees to align its goals and objectives, and to plan for a more stable financial future of the City government. I look forward to discussing this FY 04 Proposed Budget in detail during the upcoming community events and budget workshops.

Respectfully Submitted,

GERALD R. MILLER
CITY MANAGER

GRM:SRM:BT:MK

- Attachment A: Changes to the Structural Deficit in FY 04
Attachment B: Uncontrollable and Negotiated Cost Increases
Attachment C: Proposed Enhancements
Attachment D: General Fund Revenues (Top 40)
Attachment E: Proposed FY 04 Fee Adjustments by Department

Changes to the FY 04 Structural Deficit

	Dollars	FTE*	Percent of Structural Solution
<i>Estimated FY 04 Structural Budget Gap</i>	\$67,000,000		
<i>Carry-over Funds from FY 03</i>	(12,800,000)		
<i>Current Year Budget Gap</i>	47,200,000		
<i>Three-Year Plan Category</i>			
General Administration and Management	(\$7,060,778)	-67.1	18.5%
Employee Compensation, Benefits and Work Practices	(\$3,383,498)	0.0	8.9%
Contracting Opportunities	(\$1,047,229)	-22.1	2.7%
Operational and Organizational Changes	(\$4,985,360)	-25.3	13.1%
Capital Projects and Infrastructure	(\$163,200)	0.0	0.4%
Maintenance Reductions	(\$518,365)	-2.6	1.4%
Materials, Supplies and Equipment	(\$3,948,483)	-7.0	10.3%
Recreation Services	(\$590,352)	-4.0	1.5%
Library Services	(\$853,964)	-12.1	2.2%
Public Safety Support and Related Services	(\$3,443,499)	-20.8	9.0%
Public Safety Emergency Services	(\$155,009)	-2.0	0.4%
Arts and Cultural Programs	(\$529,194)	-0.4	1.4%
Communication, Promotions and Special Events	(\$203,253)	-2.0	0.5%
Business Services and Attraction	(\$275,605)	-1.1	0.7%
Code Enforcement	(\$223,656)	-3.5	0.6%
TOTAL COST REDUCTIONS	(\$27,381,445)	-170.1	71.7%
Return on Assets & Marketing Opportunities	(\$6,032,068)		15.8%
TOTAL RETURN ON ASSETS/MARKETING	(\$6,032,068)		15.8%
New Fees	(\$225,440)		0.6%
Increasing Existing Fees	(\$4,541,340)		11.9%
TOTAL REVENUE ADJUSTMENTS	(\$4,766,780)		12.5%
Year One Impact to Structural Deficit	(\$38,180,293)		
One-time Revenues/Transfers	(\$17,491,084)		
Total Cost/Revenue Adjustments (including one-time)	(\$55,671,377)		
Carry-over Fund Balance to FY 05	(\$1,471,377)		
FY 04 STRUCTURAL DEFICIT REMAINING	\$28,819,707		

*Represents Full-Time Equivalent (FTE) positions

Note: Negative numbers indicate a reduction to the structural deficit

Description of Three-Year Plan Implementation: Year One (FY 04)

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
General Administration and Management	(\$7,060,778)	-67.1	18.5%

Reductions in management and administrative staffing throughout the organization makeup a significant portion of overall cost reductions in the proposed Plan. Management positions will be reduced by 25 percent, or approximately 48 positions, in the General and related fund programs over the next three years, with an estimated \$5.3 million in savings. In FY 04, it is proposed that over 20 management positions be eliminated. Reorganization and consolidation of department responsibilities will be required to achieve this sizeable reduction, with single-focus management positions being collapsed with other managerial responsibilities. Some examples include consolidation of administrative oversight with marketing and customer relations' responsibilities, combining accounting with budgeting oversight functions, and the elimination of the Public Service Bureau, with responsibilities to be split between the Public Works Administration & Planning and Traffic & Transportation bureaus.

Administrative support staff will also be dramatically reduced during this period, requiring an increasing workload for remaining staff and restructuring operations to address critical needs. In some cases, work previously performed may have to be deferred or discontinued. It is anticipated that reductions in this area will result in increased response times to requests for information and special studies. Ad hoc analyses currently performed on a routine basis for Mayor and Council, City Manager and other departments will have to be prioritized, as resources currently in place to perform these will be reduced. In addition, memberships in professional organizations, attendance at conferences, and administrative supply budgets will be significantly reduced. Increasing the use of technology will be explored to help offset the impact of the proposed administrative reductions including use of the Internet and automated phone systems for conducting City business. Organizational consolidation and elimination of overlapping responsibilities will also play a critical role in reducing staffing levels.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Employee Benefits and Work Practices	(\$3,383,498)	0.0	8.9%

The Plan calls for a total of \$23.4 million in reductions in Employee Benefits and Work Practices over the next three years. This reduction was a direct result of the input received from the "Voice Your Choice" survey. A vast majority of the written comments suggested that employees provide a greater contribution to the benefits they receive, or that some benefits should be curtailed. Reductions in this category in FY 04 total \$3.4 million and will require negotiations with the labor unions on reductions to current benefits. This could be comprised of a number of different options including employee participation in benefit costs such as health care and pension, changes in work schedules, or other innovative solutions.

ATTACHMENT A

Any changes of this nature must be reached through negotiation with the labor unions and negotiating teams will be meeting with each union to discuss potential options. In addition, various employee recognition programs and support services will be curtailed including the safety and health fairs, retirement counseling and the employee flu clinic.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Contracting Opportunities	(\$1,047,229)	-22.1	2.7%

Past experience with contracting of services has proven it to be an effective means of reducing costs without negatively impacting service levels and in some cases actually improving service levels. The FY 04 Budget proposes further contracting in areas that the City has had success in contracting in the past. The largest opportunities for contracting out in FY 04 are street landscape maintenance and reprographic services. The City Manager proposes to phase in the contracting of street landscape maintenance over two years, generating an estimated savings of \$745,000, and contracting the first third of that service in FY 04 for a savings of \$249,000. Restructuring reprographic services could create a General Fund savings of \$263,000 through potential contracting and/or service optimization. Contracting of some facility maintenance functions, custodial services in smaller community centers, weed abatement functions on City lots, park refuse collection, and baseball field maintenance are all being considered for FY 04, with a combined savings of \$538,000.

A Contracting Committee has been established and tasked with overseeing contracting opportunities, working with an Employee Transition Committee to ensure that potentially affected employees be given an opportunity to participate in the contracting evaluation and work-process review. In addition, should functions be contracted out, every effort will be made to transition impacted employees to other City operations. Efforts are also being made to explore options for contracting-in of services that could generate revenue and offset overhead costs.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Operational and Organizational Changes	(\$4,985,360)	-25.3	13.1%

Streamlining operations and reducing duplication in the organization are key elements necessary to realize savings called for in the Plan. Examples of operational changes in FY 04 include renegotiating contracts with other agencies to lower operating costs, reorganizing customer service functions and ensuring full cost recovery from other City funds and outside agencies. A reduction of centralized technology support services is included with reductions in computer server support, network management, email services, Internet and Intranet development, and applications development and support. Some service reductions will be mitigated through a new content management system that will decentralize some of these previously centralized technology services to users in the departments.

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Operational and organizational changes may impact current service levels, particularly to other City departments and functions, but will result in significant cost savings and minimal impacts in service to the community. Some reductions will affect all departments, such as the reduction in computer support, with yet other changes resulting in expanded workloads for remaining staff. The main goal of these changes is to reduce operating costs so that core and critical services continue to receive funding priority. The City Manager is committed to exploring areas where operations can be modified so as to continue to provide core services, while generating significant cost savings. Further savings may be expected as staff review many City operations, such as information and technology services, communications and promotion efforts, neighborhood service functions, billing and collections and numerous other areas.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Capital Projects and Infrastructure	(\$163,200)	0.0	0.4%

The results of the “Voice Your Choice” survey showed that the community places a very high priority on infrastructure maintenance. In response to this direction, only a minor amount of targeted reductions are proposed in this category. The reductions proposed are to wireless communications systems and devices, and training/support for project design and management, which provides a combined total of \$163,000 in structural savings.

The City’s annual \$3 million sidewalk replacement program is proposed to remain intact, as are projects that address access issues related to the Americans with Disabilities Act (ADA). In addition, \$500,000 per year of State and Federal grant money has been identified to allow the City to begin a modest alley improvement program. Staff will continue to seek out additional funding to expand the alley program. In addition, the City Manager proposes a \$200,000 enhancement to the Graffiti Abatement Program in the FY 04 budget in direct response to the high priority the community placed on this service. The Plan had included a \$937,000 reduction from the annual \$2.7 million natural gas system capital program; however, it is proposed that this program remain fully-funded until results of a comprehensive engineering review of the natural gas pipeline maintenance schedules is completed in FY 04.

In the past few years the City has made tremendous progress toward addressing the dilapidated Police and Emergency Communications (911) facilities. Many more City facilities are in disrepair and require significant investment. To best direct limited resources to meet the highest need, the City is conducting facility condition assessments. An assessment of City alleys and fire stations was completed last year, and parks, recreation and library facilities are currently being studied. Results of the assessments will provide critical information needed to prioritize capital maintenance needs. As future resources are identified to address critical facility needs they will be allocated based upon citywide priorities.

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Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Maintenance Reductions	(\$518,365)	-2.6	1.4%

The City Manager proposes to decrease funding in FY 04 for various maintenance programs. Contracts for maintaining City-owned vacant properties will be reduced, which will lower the frequency of maintaining these properties. In addition, it is recommended that the City eliminate a budgeted deferred maintenance reimbursement to Rancho Los Alamitos. The Parks, Recreation and Marine Department will have less capacity in FY 04 to assist with special event maintenance and may have to extend park tree trimming schedules. The Energy Department will reduce their annual maintenance on gas meter assemblies and gas delivery sites at a cost savings of \$110,000. Departments have also been directed to continue to meticulously review requests to replace equipment in order to minimize costs.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Materials, Supplies and Equipment	(\$3,948,483)	-7.0	10.3%

A significant reduction in this category comes from reducing the City's fleet of vehicles and equipment totaling over \$1.5 million. A comprehensive outside review of the City's fleet by an expert consultant is being conducted with the assistance of the City Auditor's Office. Significant cost savings will be achieved by reducing the fleet by upwards of 20 percent over the next three years, with over 10 percent, or 230 vehicles, targeted for reduction in FY 04. The City will rely on reimbursing employees for use of their own vehicles to conduct City business, which will create significant cost-savings.

Other areas where savings will be gained include a reduction in the number of cell phones and pagers assigned to employees, and extensive reductions to office supply budgets, and furniture and computer equipment purchases. Departments are also expecting savings by utilizing the Internet and CD-ROM technology for distributing documents rather than incurring printing costs.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Recreation Services	(\$590,352)	-4.0	1.6%

Reductions to recreation programs total \$590,000 in FY 04, though reductions to youth and senior programs have been minimized in response to the City Council's expressed desire to limit program cuts affecting these populations. If alternative funding cannot be identified, reductions in these areas will be more significant in FY 05. As was stated in the Plan, funding for the following outside organizations is proposed to be eliminated in FY 04 saving

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\$207,000: the International City Theater summer youth performing arts program; Folklorico youth dance program; Pools of Hope swimming program; and the Long Beach Unified School District's summer recreation playground program. Other proposed reductions include Nature Center staffing saving \$256,000, and elimination of funding for both the OlympiKid and Senior Olympics Programs totaling \$77,000.

In-lieu of eliminating the fee waiver program that allowed youth groups, including Little League and AYSO Soccer, to avoid paying \$15 per hour for ballfield lighting, a 60 percent fee waiver (\$9 per hour waiver) is proposed. Approximately 50 City fields are equipped with lights and are used by an estimated 30 Long Beach area youth groups totaling about 25,000 players.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Library Services	(\$853,964)	-12.1	2.2%

Included in the Plan, and now proposed in the budget, are reductions to the City's library services. For FY 04, the focus is directed towards reducing operating expenses and staffing while attempting to minimize impacts to services provided directly to the public. The materials and book purchase budgets would be lowered \$214,000 down to \$1.3 million, reversing some of the recent enhancements intended to begin supplementing book inventories. Curtailment of some library services will, unfortunately, be unavoidable in FY 04, including closing the Main Library and Bay Shore branch library on Sundays, and reducing evening hours at the El Dorado and Los Altos branches to the same schedule of the other branch libraries. To generate even further savings, a system of rolling neighborhood library closures is proposed that provides for reductions in operating and staffing costs. The rolling closures would keep ten of eleven neighborhood libraries open four days per week instead of five, while the eleventh library would continue to be open six days. This is preferred over the outright closure of one or two branches, which would leave geographic areas of the City completely unserved. The schedule of closures would be geographically planned to provide patrons the opportunity to go to an alternate nearby branch that is open on the day their neighborhood branch is closed.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Public Safety Support and Related Services	(\$3,443,499)	-20.8	9.0%

While every effort has been made to hold funding of emergency response intact, Public safety functions makeup well over 60 percent of the City's budget, with just under 2,000 of the General Fund's 3,400 employees assigned to the Police and Fire Departments. Given the size of the deficit it is not possible to solve the structural deficit without reducing public safety department budgets. Public safety department budgets consist largely of personnel costs. In order to realize needed savings without reducing sworn police and fire emergency response staffing, support staff and non-personnel costs must be cut significantly. Civilian

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reductions in these departments will be closely monitored to ensure minimal impact on core services.

The Police Department, beginning early in 2003, began reassigning police officers from support functions back into patrol. This not only put additional police officers on the street, available to respond to calls for service, but also served to reduce \$1.9 million in overtime costs. This action resulted in restructuring of other department functions including Support and Planning, Accident Incident Detail, Communications, Youth Services, Community Relations, DUI Detail, Internal Affairs and Court Affairs. Staffing of Police Athletic League (PAL) facilities was also restructured, moving some PAL-assigned police officers to patrol and utilizing parks staff in their place at a lower cost. In addition, a number of gang outreach functions will be transferred to the PAL programs in an effort to better utilize resources. Additionally, some staffing reductions for Animal Control are recommended for FY 04.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Public Safety Emergency Services	(\$155,009)	-2.0	0.4%

The only proposed Public Safety Emergency Service reduction in FY 04 relates to a reorganization of Fire Department code enforcement staffing that was implemented in FY 03. Two fire prevention firefighters were transferred to other duties, the fire prevention positions eliminated, and the responsibilities of those positions were absorbed by remaining fire prevention personnel without a significant degradation of services provided. Savings from the closure of the Signal Hill Fire Station are reflected in the Return on Assets and Marketing category, and reduced fire management positions are accounted for in the General Administration and Management category.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Arts and Cultural Programs	(\$529,194)	-0.4	1.4%

General Fund support for arts organizations is proposed to be significantly reduced over the next three fiscal years. The City is committed to working with the Public Corporation for the Arts (PCA) and the rest of the arts community to develop a "Blueprint for the Arts" that will identify private funding sources and entities that can assist in stable, long-term funding for their programs. By spreading the reductions over three years, it is hoped the community's arts organizations can adjust their operations and work toward increasing their fund-raising capacity. In FY 04, the total allocation to the PCA is proposed to be reduced by \$697,000, of which \$347,000 is from the General Fund and \$350,000 is from Special Advertising and Promotions (SAP). After these reductions, the City support for the PCA will be \$650,000 in FY 04. Additionally, a 25 percent reduction to funding for the Municipal Band concert series is recommended, which could reduce their season from six weeks to four weeks, unless other funding can be identified.

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Finally, the endorsed Plan included reducing \$350,000 of the \$669,000 payment for the Long Beach Museum of Art management agreement thereby returning funding to FY 02 levels. The non-profit Long Beach Museum of Art Foundation operates the City-owned Museum. It is recommended the reduction for FY 04 be reduced from \$350,000 to \$100,000, with the balance reduced in FY 05 to provide time for the Museum to develop alternative funding sources to support their operations. This time extension should allow for sufficient development of private funding sources to maintain the Museum of Art operations.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Communication, Promotions and Special Events	(\$203,253)	-2.0	0.5%

The City is restructuring the way it communicates with the public and staff is currently developing a Community Outreach Plan to accompany a likely reorganization of this important function. It is anticipated that costs can be reduced concurrent with improving communications and marketing efforts. Communication improvements being developed include an E-Government initiative that will put more of the government records and information on-line, providing electronic interaction between the public and public servants and webcasts of important City meetings and events. Also, a "Speakers Bureau" is being created whereby City staff will be made available to present City issues to community groups and to encourage and solicit community input into the government decision-making process.

Cost savings for this area are being realized as a result of the reorganization of the Fire Department's Public Information Office, and by reducing the size and number of publications such as the Parks, Recreation and Marine Class Schedule, the ReDiscover Long Beach community calendar, and certain business development materials.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Business Services and Attraction	(\$275,605)	-1.1	0.7%

The "Voice Your Choice" survey results illustrated the importance of developing the City's business community. Retention of existing businesses and attraction of new businesses is a high priority goal. The City's 2010 Strategic Plan and economic development policy both stress having a proactive economic development effort. Given all of this, proposed reductions in this category are modest. The Community Development Department's Business Technology Division, as mentioned in the Plan, was intended to focus on developing an Internet industry presence during the "dot.com" boom. Since that sector has declined dramatically the past couple of years, the division was never fully implemented. This division will be eliminated and these functions collapsed with other divisions in the department. The Community Development Department will continue to focus on other priorities including development of businesses, manufacturing, retail, continued growth in

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tourism and related support service companies, and attracting and retraining trade-oriented companies. Another minor reduction in this category involves customer service provided by the Public Works Department in the area of subdivision maps and development agreements.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Code Enforcement	(\$223,656)	-3.5	0.6%

As mentioned in the Plan, there are a multitude of code enforcement services managed by several City departments. In an effort to identify duplicative services and improve operational efficiencies, a cross-functional team from all affected departments was assembled in addition to hiring a consultant to conduct a comprehensive review of code enforcement functions. It is suggested that any significant structural changes to the City's code enforcement programs await the results of the study. In the meantime, savings had to be realized, so some service revisions are proposed in this budget including reducing zoning inspection to critical inspections only, reducing weed abatement inspections to the most serious violations, and eliminating half of a vacant planner position funded from a State code enforcement grant.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Return on Assets & Marketing Opportunities	(\$6,032,068)	0	15.8%

The City owns a number of assets that generate revenue for the General Fund. The City, jointly with the Los Angeles County Sanitation District, owns the South-East Resource Recovery Facility (SERRF), a refuse-to-energy plant. SERRF projects a \$5.0 million annual profit, half of which will be transferred to the City. There are also marketing opportunities proposed, which are anticipated to generate new revenue. These include the recently signed agreement with a private marketing firm, Signs of Support, that will generate approximately \$300,000 from advertising on select City vehicles, as well as other potential marketing ideas that are being researched. The City of Signal Hill recently decided to end its fire protection contract with the Long Beach Fire Department. The City was subsidizing the cost of providing service to Signal Hill and will, therefore, save approximately \$336,000 per year with the termination of the contract. The balance of the items in this category include pipeline permit revenue from the Water Department, reimbursement from Community Hospital of an outstanding loan, additional unbudgeted Redevelopment Agency property tax increment pass-through money, and additional ongoing fund transfers from the Gas Fund and Towing Fund.

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Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
New Fees	(\$225,440)	0	0.6%

This category is a small part of the FY 04 budget solution, and includes fees not currently collected by the City. Even though several were contemplated in the Plan, no new taxes are included in this proposed FY 04 budget. The proposed new fees for FY 04 are tied directly to a specific service being provided and are designed to begin paying for those services. Examples of new fees include setting preferential parking permit fees to \$30 per year, a \$50 "After Hours" release fee to retrieve impounded vehicles after normal business hours, establishing a collections contract to recover the difference between the towed vehicle storage fees and the lien sales/salvage revenue recovered. In addition, a \$5 per year fee is proposed in order to begin covering costs of providing required hazardous material education services to the following types of facilities: multi-unit housing, hotels/motels, food facilities, hazardous waste generators, medical waste facilities, and those receiving site education visits related to the National Pollution Discharge Elimination System (NPDES).

For a complete listing of proposed FY 04 Fee Adjustments, including those mentioned above that relate to the Plan, please refer to **Attachment E** of this letter.

Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
Existing Fees	(\$4,541,340)	0	11.9%

In order to achieve reductions to the structural deficit, increases in some penalties and fees are proposed for FY 04. No existing taxes are proposed to be increased in FY 04. The fee increases included are designed to recover the cost of providing the associated service, and in no cases would the fees exceed such costs. Consideration has also been given to comparable fees charged by surrounding cities. Included in this proposed budget are increases such as parking citation and City-owned garage increases, elimination of the Business License Tax discount that was discontinued in December 2002, fire plan check fees, and some recreation fees such as those for adult sports and recreation swim. Increases in gas service connection and reconnection fees will help offset the cost of providing natural gas connection services, and raising the utility payment late from 1 percent to 1.5 percent can provide significant revenue, while not placing an undue burden on the community.

For a complete listing of proposed FY 04 Fee Adjustments, including those mentioned above that relate to the Plan, please refer to **Attachment E** of this letter.

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Category	FY 04 Dollars	FY 04 FTE	Percent of the Solution
One-time Revenues/Transfers	(\$17,491,084)	0	N/A

Although one-time revenues do not solve the structural deficit, their use is critical to the Plan's approach to solve the problem over a number of years without relying on harsh cuts of services to the community. This budget proposes to use approximately \$12.8 million in carryover funds from FY 03 as well as \$17.5 million in additional one-time revenues and transfers to balance the FY 04 budget¹. The \$12.8 million carryover primarily originated from the City Manager departments hiring freeze and purchasing review that produced significant savings in FY 03. These savings also allowed the City to defer certain one-time revenues planned for use in the FY 03 budget that can be used to help balance the FY 04 budget. While the use of one-time revenues is more than was originally contemplated in the Three-Year Plan, it is significantly less than was used in the FY 03 budget. It allows the City to balance this year's budget without creating new reductions that have not been discussed openly with the public or having to move forward with less palatable reductions planned for FY 05 or FY 06. One-time revenues and transfers planned for the FY 04 budget include revenues from refinancing the SERRF debt, Airport repayment of a previous loan, and transfers from the City's General Services Fund and Employee Benefits Fund. The City is determined to rightsize the budget, eliminate the structural deficit and the City's reliance on one-time funds over the next three years; however, prudent uses of one-time revenues can be a useful tool to implement this multi-year strategy while maintaining core services to the community.

¹ As the budget was being prepared for publication, the State Legislature adopted its budget. The State Budget will reduce City revenues by as much as \$10 million, and possibly more, thereby effectively eliminating the \$12.8 carryover.

Uncontrollable and Negotiated Cost Increases

Description	Fund	Cost	Offset	Offset Description
<i>CITY MANAGER</i>				
▪ Rent Increase for Citizen Police Complaint Commission Facility	General	\$1,529	-	-
<i>FINANCIAL MANAGEMENT</i>				
▪ Maintenance Agreements for Commercial Services Equipment (Payment Processing, Cashiering and Calling Campaign Equipment)	General, Water, Gas, Sewer, Refuse	\$5,612	(\$5,612)	Revenue
▪ Annual Financial Audit Contract	General	\$19,519	-	-
<i>FIRE DEPARTMENT</i>				
▪ Emergency Operations Center (EOC) Custodial and Maintenance Services	General	\$75,000	-	-
▪ Required Drug Testing for Firefighters Association (Negotiated in Memorandum of Understanding)	General	\$8,000	(\$8,000)	Cost Reduction
<i>HUMAN RESOURCES</i>				
▪ Supplemental Insurance Premium Increases	Insurance	\$323,613	-	-
<i>LONG BEACH ENERGY</i>				
▪ Consumer Price Index (CPI) Increase in Recycling Collections Contract	Refuse and Recycling	\$103,201	(\$160,044)	Revenue
▪ Increase in South East Resource Recovery Facility (SERRF) Tip Fees	Refuse and Recycling	\$1,464,664	(\$1,530,867)	Revenue
▪ Increase in non-SERRF Refuse Disposal Costs	Refuse and Recycling	\$24,430	(\$8,041)	Partial Revenue
▪ Cost Associated With State Fee for Towing/Lien Sales of Vehicles	Towing	\$100,000	(\$100,000)	Revenue
<i>POLICE DEPARTMENT</i>				
▪ Negotiated Conversion of Police Corporals to Police Lieutenants and Police Officers	General	\$514,988	(\$520,004)	Cost Reduction

ATTACHMENT B

Description	Fund	Cost	Offset	Offset Description
<i>PUBLIC WORKS</i>				
▪ Lease of Modular Building Units	Airport	\$200,000	(\$200,000)	Revenue
▪ Lease of Boeing Parking Lot	Airport	\$900,000	(\$900,000)	Revenue
▪ Lease of Long Beach City College Parking Lot	Airport	\$258,188	(\$258,188)	Revenue
<i>CITYWIDE</i>				
▪ Citywide Increases in Workers' Compensation Costs	All Funds	\$14,000,000	-	-
▪ Citywide Increases in General Liability Costs	All Funds	\$3,000,000	-	-
▪ Citywide Increases in Cost of Health/Dental Benefits	All Funds	\$7,280,000	-	-
▪ Previously Negotiated 3 Percent Salary Increase for Miscellaneous (Non-Safety/Management) Employees	All Funds	\$2,600,000	-	-
<i>TOTAL</i>		\$30,878,744	(\$3,690,756)	

ATTACHMENT C

Proposed Enhancements

Description	Fund	One Time Cost	Cost	Offset	Offset Description
<i>COMMUNITY DEVELOPMENT</i>					
▪ Project Development Bureau Established Due to Reorganization	General		\$200,000	(\$200,000)	Revenue
▪ Citywide Business Development and Attraction Marketing Program	General		\$69,000	(\$69,000)	Revenue
▪ Create Marketing and Sponsorship Program	General		\$121,261	(\$1,000,011)	Revenue
<i>FINANCIAL MANAGEMENT</i>					
▪ Purchase Database from Franchise Tax Board to increase return on Business License Tax	General	✓	\$60,000	(\$60,000)	Revenue
▪ Combine Long Beach Energy's Call Center with Financial Management's to Increase Efficiency	General		\$81,243	(\$81,243)	Revenue
▪ Real Time Credit Card Processing	Gas, Water, Sewer, Refuse		\$50,000	(\$50,000)	Revenue
<i>HEALTH AND HUMAN SERVICES</i>					
▪ Grease Trap Permit and Inspection Program	Health		\$79,967	(\$96,000)	Revenue
<i>PARKS, RECREATION AND MARINE</i>					
▪ New Water Park Amenities at Cesar Chavez Park	General		\$82,771	(\$82,771)	Revenue
▪ Daisy Lane, Martin Luther King Jr., and Veterans Day Parade Costs	General	✓	\$100,000	(\$100,000)	Revenue
▪ Aquatics Festival 2004 Event Costs	Tidelands	✓	\$150,000	-	-
▪ Increase in Contractual Services for Special Events Bureau	Special Advertising & Promotion		\$50,000	(\$50,000)	Revenue
▪ Increase in Contractual Services for Aquatic Camps	Tidelands		\$10,000	(\$10,000)	Revenue

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Description	Fund	One Time Cost	Cost	Offset	Offset Description
<i>PLANNING AND BUILDING</i>					
▪ Additional Staff for the Construction Regulation Program to Address High Demand Due to Increased Construction Activity ¹	General		\$217,666	-	-
▪ Add Planner V in Advance Planning	General		\$94,818	(\$94,818)	Revenue
▪ Add Inspector to Issue Citation Tickets for the Property Maintenance Program	General		\$95,268	(\$95,268)	Revenue
▪ Create Planning Bureau Manager and Consolidate with Environmental Services Officer	General		\$161,210	(\$161,210)	Revenue/Cost Reduction
▪ Add Planner V for Zoning and Land Use	General		\$94,818	(\$94,818)	Revenue
<i>PUBLIC WORKS</i>					
▪ Increased Funding for Graffiti Abatement Program	General	✓	\$200,000	-	-
▪ New Alley Improvement Program	Gas Tax and Capital Projects		\$500,000	(\$500,000)	Revenue
▪ Add One Airport Security Officer IV	Airport		\$55,271	(\$55,271)	Revenue
▪ Add Five Airport Security Officer II	Airport		\$234,987	(\$234,987)	Revenue
▪ Add Four Airport Operations Assistant I	Airport		\$167,756	(\$167,756)	Revenue
▪ Add Five Airport Security Officers III and Vehicles	Airport		\$383,879	(\$383,879)	Revenue
▪ Replace Partitions in Six Restrooms at Airport	Airport	✓	\$22,000	(\$22,000)	Revenue
▪ Purchase 20 Steel Plates to Mitigate Pavement Failure on Airplane Ramps and Taxiways	Airport	✓	\$27,000	(\$27,000)	Revenue
▪ Purchase Two Automatic External Defibrillators	Airport	✓	\$6,510	(\$6,510)	Revenue
▪ Administer National Pollutant Discharge Elimination System (NPDES) Issues at Long Beach Airport	Airport		\$73,846	(\$73,846)	Revenue

¹ This enhancement will be funded by existing construction regulation fees that can be used only for this program.

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Description	Fund	One Time Cost	Cost	Offset	Offset Description
▪ Add Special Projects Officer	Airport		\$96,497	(\$96,497)	Revenue/Cost Reduction
▪ Add Five Maintenance Assistant II for Custodial Duties at the Airport	Airport		\$197,503	(\$197,503)	Revenue
<i>TECHNOLOGY SERVICES</i>					
▪ Additional Automated Tape Library (ATL) to Handle Computer Backup	General Services	✓	\$12,000	(\$12,000)	Revenue
<i>TOTAL</i>			\$3,695,271	(\$4,022,388)	

**CITY OF LONG BEACH
GENERAL FUND REVENUES
(Based on June 2003 YTD)**

TOP 40 GENERAL FUND REVENUES	FY 01 ACTUALS	FY 02 ACTUALS	FY 03 ADJ BUD	FY 03 ETC	FY 04 JUNE PROP
SECURED REAL PROPERTY TAXES	\$ 42,766,550	\$ 45,841,330	\$ 47,783,000	\$ 48,341,000	\$ 50,414,000
CITY SALES AND USE TAX	40,504,603	38,427,651	39,378,000	41,829,000	41,287,000
MOTOR VEHICLE IN LIEU TAX	26,573,298	27,434,551	27,450,000	27,969,000	28,249,000
ELECTRIC USERS TAX & PENALTIES	23,875,249	27,424,247	23,402,000	24,156,000	18,272,000
TELEPHONE USERS TAX & PENALTIES	20,081,378	19,395,152	17,461,000	18,796,000	18,562,000
BUSINESS LICENSE TAXES	7,805,588	7,800,764	7,800,000	8,260,000	8,899,600
PARKING CITATIONS	7,234,767	7,626,582	7,387,050	7,382,000	8,480,050
HARBOR-FIRE	6,956,804	5,958,072	6,906,130	6,906,130	7,483,792
ELECTRIC COMPANY FRANCHISES	5,389,266	6,389,618	6,548,000	6,870,000	5,997,000
PIPE LINE FRANCHISES	20,417,032	3,586,877	4,638,000	6,668,000	5,500,000
TRANSIENT OCCUPANCY TAX	6,667,920	6,223,373	6,231,000	6,463,000	6,829,000
GAS TAX-MAINTENANCE CHARGES	4,360,000	6,885,310	6,308,973	6,308,973	6,308,973
GAS USERS TAX & PENALTIES	8,968,480	4,824,243	4,121,000	5,343,000	4,580,000
MISC GRANTS FEDERAL	5,535,391	5,001,551	5,065,593	5,090,827	1,525,778
INTEREST-POOLED CASH	8,165,344	6,100,662	5,853,053	4,631,430	3,386,316
EMERGENCY AMBULANCE FEES	4,254,431	4,287,706	4,805,936	4,000,000	4,350,000
GAS-BILLING & COLLECTION SERVICES	3,774,571	3,855,266	3,891,241	3,891,241	3,945,157
AMERICAN GOLF LEASE	3,669,406	3,637,159	3,944,465	3,844,465	3,094,465
LAND,BLDG,R/W,EASEMENT,APT RENTALS	4,019,510	4,124,532	3,313,213	3,790,267	3,148,097
WATER USERS TAX & PENALTIES	4,226,131	4,252,224	3,827,000	3,657,000	3,197,000
PROP 172 FUNDS (SB509)	3,635,867	3,456,482	3,616,000	3,619,000	3,619,000
CIP-ENGINEERING CHARGES	2,835,270	3,627,776	2,823,052	3,338,268	3,047,416
VEHICLE CODE FINES	3,220,225	3,453,978	3,500,000	3,200,000	3,500,000
UNSECURED PERSONAL PROPERTY TAXES	2,727,592	2,234,790	2,635,000	2,809,000	2,809,000
AIRPORT-FIRE	2,314,010	3,333,922	2,640,783	2,640,783	3,331,826
OTHER DEPT SVCS TO PROPRIETARY FUNDS	1,301,760	2,176,815	2,353,410	2,475,844	2,655,893
WATER-BILLING & COLLECTION	2,032,236	2,209,669	2,389,795	2,389,795	2,423,128
OIL PRODUCTION TAX	2,365,145	2,253,947	2,184,000	2,261,000	2,077,000
MISC REVENUE FROM OTHER AGENCIES	939,051	697,782	1,309,897	2,244,564	2,249,030
BUILDING PERMITS	1,454,528	2,322,543	1,450,000	2,123,500	1,500,000
OTHER DEPT CHGS TO GOVT'L FUNDS	2,605,869	2,322,250	2,051,324	2,002,714	2,202,737
INTEREST-LOAN REPAYMENTS	54,386	1,768,108	831,889	1,818,407	596,251
PIPELINE SAFETY FEES	1,638,383	1,624,451	1,638,383	1,702,146	1,703,000
REFUSE-BILLING & COLLECTION SERVICES	1,449,025	1,518,566	1,616,925	1,616,925	1,648,534
BUILDING PLAN CHECK FEES	1,709,266	1,892,863	1,600,000	1,555,003	1,600,000
ASSET MANAGEMENT CHARGES	1,294,476	1,339,500	1,493,372	1,499,372	1,493,372
SIGNAL HILL FIRE SVC CHARGE	1,000,283	1,126,070	1,037,000	1,492,070	122,000
CHARGES FOR SPECIAL SERVICES	1,357,479	1,324,160	1,939,365	1,371,053	4,049,603
MISC REFUNDS & REIMB	1,126,566	1,775,295	1,034,802	1,290,875	1,659,302
TRANSFERS FROM OTHER FUNDS	19,272,496	23,202,789	53,448,685	46,905,477	38,969,031
SUBTOTAL TO 40 GENERAL FUND REVENUES	\$ 309,579,632	\$ 302,738,628	\$ 327,708,336	\$ 332,553,129	\$ 314,765,351
SUBTOTAL ALL OTHER REVENUES	\$ 32,208,443	\$ 65,315,735	\$ 39,348,837	\$ 39,237,085	\$ 34,982,439
TOTAL	\$ 341,788,075	\$ 368,054,363	\$ 367,057,173	\$ 371,790,215	\$ 349,747,790

*OTHER REVENUES INCLUDE \$2.5 MILLION OF UNRESERVED FUNDS.

Proposed FY 04 Fee Adjustments By Department

FEE DESCRIPTION	FUND	ANNUAL REVENUE
<i>COMMUNITY DEVELOPMENT</i>		
▪ Long Beach Enterprise Zone Program of \$30 per Application	General	\$69,000
<i>FINANCIAL MANAGEMENT (Citywide XC)</i>		
▪ Increase Late Fees on Utility Bills from 1 percent to 1.5 percent	General	\$225,000
▪ Raise Certain Parking Citation Penalties Including "Exceeded Time Limit", "No Parking by Sign" and "Blue Curb Street"	General	\$250,000
▪ Raise Fees for Business License Regulatory Permits & Investigations Including "Business Alarm System Regulatory Fee", "Pool Hall Investigation Fee", "Garage Sale Fee" and "Entertainment with Alcohol and Dancing Investigation Fee" ¹	General	\$100,000
▪ Increase Returned Check Fees from \$15 to \$30	General	\$600,000
▪ Preferential Parking Permits Cost Recovery	General	\$20,000
▪ Apply a Pipeline Permit to the Water Department	General	\$2,500,000
<i>FIRE DEPARTMENT</i>		
▪ Increase Fire Plan Check Fees from 50% to 75% of Planning and Building Plan Check Fees	General	\$250,000
<i>HEALTH AND HUMAN SERVICES</i>		
▪ New Animal Control Fees such as Vicious Animal Permit Re-inspection Fee, and Increases in Fees such as Dead Animal Disposal, Transporting Animals, Impounds and Daily Boarding, Late Fees for Licenses, Trap Rentals, Euthanasia; and Owner-Relinquished Animals	General	\$35,000
▪ Hazardous Materials Education Program of \$5 per Year for Multi-unit Housing, Hotels, Food Facilities and Hazardous Waste Generators	General	\$57,940
▪ Environmental Health Fees Increase of 5% to Health Permit Fees in the Food, Water and CUPA (hazardous waste generator) Programs to Cover Program Costs	Health	\$87,379
▪ Multi-Unit Dwelling Inspection Fee (11 – 21 units or more)	Health	\$16,000
<i>LONG BEACH ENERGY</i>		
▪ Citation Rate Increase for Street Sweeping Violations from \$30 to \$35	General	\$775,000

¹ These fees have not been increased since the 1960s and will be raised to recover the cost of providing the service.

ATTACHMENT E

FEE DESCRIPTION	FUND	ANNUAL REVENUE
<ul style="list-style-type: none"> ▪ Increased Fee for Providing Natural Gas Services (monthly average of 94 cents per household) to Fund Necessary Infrastructure and Operating Costs ▪ Revise Gas Main and Service Fee Line Schedule for Developer-Funded Installation and/or Extension of Natural Gas Distribution Projects ▪ Increase Natural Gas Service Establishment Fees from \$25 to \$35 ▪ Increase Natural Gas Reconnection Fee from \$16 to \$36 ▪ Increase Towing Yard Daily Storage Fees from \$20 to \$25 ▪ Implement Towing Yard After Hours Release Fee of \$50 	<p style="text-align: center;">Gas</p> <p style="text-align: center;">Gas</p> <p style="text-align: center;">Gas</p> <p style="text-align: center;">Gas</p> <p style="text-align: center;">Towing</p> <p style="text-align: center;">Towing</p>	<p style="text-align: center;">\$2,200,000</p> <p style="text-align: center;">\$30,000</p> <p style="text-align: center;">\$360,000</p> <p style="text-align: center;">\$500,000</p> <p style="text-align: center;">\$250,000</p> <p style="text-align: center;">\$50,000</p>
<p><i>PARKS, RECREATION AND MARINE</i></p> <ul style="list-style-type: none"> ▪ Various Swimming Pool Fee Increases at Silverado and King Pools for Admission, Group and Private Lessons, Swim Meets, Business Rentals and Filming. ▪ Athletic Field Preparation (first field from \$44 to \$55; second field from \$27 to \$30) ▪ Extended Day Care Fee Increase of \$5 per week ▪ Various Blair Field Fee Increases for Field Rental Rates, Light Fees, Field Preparation Fees, and Rent from Parking and Non-Food Concessions. ▪ Youth Services Network Membership Fee of \$20 ▪ Chavez Water Park \$1 Admission Fee ▪ Average Adult Sports League Fee Increases of \$30 to \$40 and an Increase in the Number of Volleyball and Basketball Teams ▪ Reinstate \$1 Summer Recreation Swim Fee ▪ Community Pools -- Swim Class Fee Increase of \$5 per Class ▪ Light Fee Waiver Decrease from 100% to 60% for Youth Groups ▪ Sand Stake Permit Fee of \$210 for 11 Month Use of the Sand Stakes ▪ Various Swimming Pool Fee Increases at Belmont Pool for Admission, Group and Private Lessons, Swim Meets, Business Rentals and Filming ▪ Leeway Sailing Center Fee Increases of \$4 for Kayak, Canoe, Sabot, and Capri Classes ▪ Establishment of Marine Facility Rental Fee at 223 Marina Drive and Mosey Kent Park Ranging from \$100 to \$300 ▪ Fee Increases for New Live-aboard Residents to Cover Services and Utility Costs ▪ Shore Mooring Permit Fee Change to \$6 Per Foot Per Day for Special Events 	<p style="text-align: center;">General</p> <p style="text-align: center;">General</p> <p style="text-align: center;">General</p> <p style="text-align: center;">General</p> <p style="text-align: center;">General</p> <p style="text-align: center;">General</p> <p style="text-align: center;">General</p> <p style="text-align: center;">General</p> <p style="text-align: center;">General</p> <p style="text-align: center;">General</p> <p style="text-align: center;">Tidelands</p> <p style="text-align: center;">Tidelands</p> <p style="text-align: center;">Tidelands</p> <p style="text-align: center;">Tidelands</p> <p style="text-align: center;">Tidelands</p> <p style="text-align: center;">Tidelands</p>	<p style="text-align: center;">\$1,340</p> <p style="text-align: center;">\$2,000</p> <p style="text-align: center;">\$4,500</p> <p style="text-align: center;">\$5,000</p> <p style="text-align: center;">\$1,000</p> <p style="text-align: center;">\$16,430</p> <p style="text-align: center;">\$30,000</p> <p style="text-align: center;">\$15,000</p> <p style="text-align: center;">\$15,000</p> <p style="text-align: center;">\$50,000</p> <p style="text-align: center;">\$1,489</p> <p style="text-align: center;">\$660</p> <p style="text-align: center;">\$2,000</p> <p style="text-align: center;">\$3,000</p> <p style="text-align: center;">\$900</p> <p style="text-align: center;">\$0</p>

ATTACHMENT E

FEE DESCRIPTION	FUND	ANNUAL REVENUE
<ul style="list-style-type: none"> ▪ Aquatic Camp Fee Increase of \$20 per week ▪ New \$35 Application Fee for Festival Operators ▪ Fee for Street Closures for Merchant Association and Community Groups (Increase for Merchant Associations from \$25 to \$35 and New Fee of \$35 for Community Groups) ▪ Bill Processing Administrative Fee of 6.5% for Special Event Sponsors ▪ Various Application Fee Changes for Use of Public and Tidelands Properties for Profit and Non-Profit Groups ▪ Special Events Bureau Fees for On-site Staff Assistance of \$100 Per Hour for Staff Monitoring/Site Visits and \$50 Per Hour for Staff at Special Events and Filming Locations ▪ Still Photography Film Program Application Fee of \$50 for Adults and \$20 Fee For Students ▪ Moving Film Application and Permit Fee Increase of \$50 for Applications and Increase of \$25 Per Day ▪ Public Property Block Party Use Fee Increase From \$25 to \$35 	Tidelands Special Advertising & Promotions Special Advertising & Promotions Special Advertising & Promotions Special Advertising & Promotions Special Advertising & Promotions Special Advertising & Promotions Special Advertising & Promotions Special Advertising & Promotions	\$10,000 \$875 \$1,195 \$63,895 \$11,030 \$29,400 \$3,850 \$65,360 \$1,250
<i>PLANNING AND BUILDING</i>		
<ul style="list-style-type: none"> ▪ Proposed Fee Increases for Zoning and Environmental Processing Services Such as General Plan Amendments, Conditional Use Permits, Administrative Use Permits, Standard Variances, Sign Permits, and Zoning Plan Checks ▪ General Plan Surcharge of 1.5% on Permit and Plan Check Fees 	General General	\$141,844 \$93,784
<i>TECHNOLOGY SERVICES</i>		
<ul style="list-style-type: none"> ▪ Raise Civic Center Monthly Parking Rates by \$10 and Daily Maximum Rate By \$1.50 	Civic Center	\$170,000
<i>TOTAL</i>		\$9,116,121